



A GUIDE TO FISCAL INCENTIVES AVAILABLE FOR HIGH-TEC, R&D, TECHNOLOGY UPGRADING AND INNOVATION

Prepared by:
Sri Lanka Export Development Board
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Income Tax concessions

(Includes amendments, if any, made under the Inland Revenue (Amendment) Act , No. 18 of 2013)

- (1) Any **prize** received by a person as an award made by the Government in recognition of an **invention** created, or any **research** undertaken, by such person will be **exempted from Income tax**.

{Section 13 (I)}

- (2) The profits and income of any new undertaking of a company which is engaged solely in **research and development**, with an investment of not less than two million rupees made within one year from the commencement of such undertaking, shall be **exempted from income tax** for a period of five years, reckoned from the year of assessment in which the undertaking commences to make profits from transactions entered into in that year of assessment or from the commencement of the year of assessment immediately succeeding the year of assessment in which the undertaking completes a period of two years reckoned from the date on which the undertaking commences to carry on commercial operations, whichever occurs earlier: Provided that where the period for which the profits and income are exempt from income tax commences after April 1, 2008, the period for which such profits and **income are exempted** shall be three years.

“**Research and development**” means any systematic or intensive study carried out in the field of science or technology with the object of using the results thereof for the production or improvement of materials, devices, products, produce or process (other than quality control of products or routine testing materials, devices, research in social science or humanities, routine data collection, efficiency surveys or management studies and market research or sales promotion).

{Section 22(1) & 22(2)}

- (3) There shall be **exempt from income tax** the emoluments arising in Sri Lanka and any income not arising in Sri Lanka of any individual who is a **scientist, technician, expert or adviser**, who is **not a citizen** of Sri Lanka and who is brought to and employed in Sri Lanka by any undertaking, being an enterprise with which an agreement has been entered into by the **Board of Investment** under section 17 of the Board of Investment of Sri Lanka Law, No. 4 of 1978, for the purposes of that undertaking: Provided that emoluments of an individual shall

not be exempted from income tax, after the date of the cessation of employment of such individual in such undertaking or the date on which the exemption from tax granted by such agreement ends, whichever is the earlier;

{Section 8(1)(d)}

- (4) There shall be **exempt from income tax** the emoluments arising in Sri Lanka and any income not arising in Sri Lanka of any individual who is an **expert** and who **is not a citizen** of Sri Lanka and is employed in Sri Lanka by any undertaking which has entered into an agreement with the Government of Sri Lanka, being an agreement which provides for the exemption from income tax of such emoluments or by any Strategic Development Project *Gazetted* by the Board of Investment of Sri Lanka under subsection (4) of section 3 of the Strategic Development Projects Act, No. 14 of 2008;

An “**expert**” means an individual who has expertise in such field as may be determined by the Commissioner- General, as being a field in which sufficient expertise is not available among the citizens of Sri Lanka;

{Section 8(1)(dd)}

- (5) There shall be **exempt from income tax** the emoluments arising in Sri Lanka of any individual who is an **expert** and who is **not a citizen** and is brought to and employed in Sri Lanka by any undertaking for the purposes of that undertaking, being an undertaking with which an agreement has been entered into by the Board of Investment of Sri Lanka and invested more than US \$ 50 Million as direct foreign investment made on or after April 1, 2013, during the period of its tax holiday under section 17A or section 16D as the case may be, and if it is confirmed by the Board of Investment of Sri Lanka that the service rendered by him in carrying out activities of such undertaking in Sri Lanka is essential and such service is not obtainable from Sri Lanka: Provided that the number of experts in an undertaking to whom this provision is applicable shall not exceed five.

An “**expert**” means an individual who has expertise in such field as may be determined by the Commissioner - General on the recommendation made by the Board of Investment of Sri Lanka, as being a field in which sufficient expertise is not available among the citizens of Sri Lanka;

{Section 8(1)(ddd)}

(6) There shall be **exempted from income tax** the official emoluments arising in Sri Lanka, and any income not arising in or derived from Sri Lanka of any **expert, adviser, technician or official** who is brought to Sri Lanka by the Government of Sri Lanka through any Specialized Agency of the United Nations Organisation, or under the Point Four Assistance Programme of the Government of the United States of America, or through the Colombo Plan Organisation (including its Technical Assistance Bureau) or through the Asia Foundation or any other organization approved by the Minister as being of a similar character, and whose salary or principal emolument is—

(A) payable out of the funds provided by way of a grant or other assistance to the Government of Sri Lanka by any such Organisation, Programme or Foundation or any other organization, as the case may be; or

(B) not payable by the Government of Sri Lanka;

{Section 8(1)(e)(iii)}

(7) There shall be **deducted** for the purpose of ascertaining the profits or income of any person from any source, all outgoings and expenses incurred by such person in the production thereof, including—

(a) an allowance for depreciation by wear and tear of the following assets acquired, constructed or assembled and arising out of their use by such person in any trade, business, profession or vocation carried on by him—

(i) For energy efficiency purposes, any **high tech plant, machinery or equipment** acquired on or after April 1, 2012, the rate shall be fifty per centum of the cost of acquisition; Provided that where **such high tech plant, machinery or equipment** acquired on or after April 1, 2013 and used in any trade or business meets more than **thirty per centum** of the total requirement of the power generation of that trade or business out of alternative energy sources, the rate shall be **one hundred per centum** on the cost of acquisition;

Alternative energy source means any source other than the National Grid that generates power.

(ii) where any plant or machinery or equipment is acquired and used in any business on or after April 1, 2013 for **technology upgrading** purposes or **introducing any new technology**, the rate shall be **fifty per centum** of the cost of acquisition;

(iii) where any plant, machinery or equipment is acquired and used on or after April 1, 2013 in any Stock Broker Company for the **upgrading of information technology infrastructure** to be in compliance with the requirements of the Colombo Stock Exchange licensed by the Securities and Exchange Commission, in relation to the Risk Management System, the rate shall be **one hundred per centum** of the cost of acquisition;

{Section 25(1)(a)}

(8) There shall be deducted for the purpose of ascertaining the profits or income of any person from any source, all outgoings and expenses incurred by such person in the production thereof, **a sum equal to one fourth of any payment** made by such person as consideration for obtaining a **license** in his favour of any manufacturing process used by such person in any trade or business carried on by such person ;

{Section 25(1)(b)}

(9) There shall be **deducted** for the purpose of ascertaining the profits or income of any person from any source, all outgoings and expenses incurred by such person in the production thereof, for any year of assessment-

- (i) Commencing prior to April 1, 2011, the expenditure including capital expenditure; or
- (ii) commencing on or after April 1, 2011, an amount equal to **two hundred per centum** of the expenditure, including capital expenditure,

Incurred by such person in carrying on any **scientific, industrial, agricultural or any other research** for the upgrading of any trade or business carried on by such person:

Provided that-

- (A) where such expenditure is incurred on or after April 1, 2012 but prior to April 1, 2013 and such research is carried out through any Government institution;
- (B) where such expenditure is incurred on or after April 1, 2013 and such research is carried out through any institution in Sri Lanka,

The deduction shall be an amount equal to **three hundred per centum** of such expenditure incurred by such person.

For these purposes

- (i) “Government institution” includes any company, where fifty *per centum* or more of the shares are held by the Government; and
- (ii) “**scientific, industrial, agricultural or any other research**” means any such research which is carried out for product or produce innovation, or improving the quality or character of any product, produce or service but does not include any market research or feasibility studies.

The rate of **income tax** applicable for profits and income of any person from research activities defined above is

- (a) A maximum of **16 per centum** for an individual
- (b) **20 per centum** for a company.

{Section 25(1)(i)}
{5th Schedule (item 37)}

Concessions under VAT

(includes any amendments if any made under the VAT (amendment) Act No. 17 of 2013.)

- 1) Supply of services are **zero rated** if such supply is directly connected with a **copyright, patent, license, trade mark or similar intellectual property right** to the extent that such right is for use outside Sri Lanka.

{Section 7(1)(b)(iii)}

- 2) **No VAT shall be charged** on the supply of **research and development services** provided by the supplier of such services within the meaning of the Inland Revenue Act under section 25.

{Section 8}
{1st schedule part II (b) (xxxviii)}